

COMMON MARKET FARM REPORT

BELGIUM, FRANCE, FEDERAL REPUBLIC OF GERMANY, ITALY, LUXEMBOURG, THE NETHERLANDS

THE KENNEDY ROUND AND AGRICULTURE

Access Requires Certain Commitments

by Hendrikus Vredeling, Vice-President of the Agricultural Committee of the European Parliament

The major aspects of the EEC's proposals on farm products in the Kennedy Round is that they put agriculture on the same footing as industry. Acceptance of this point alone would constitute an enormous concession by the industrially developed countries. Concessions like these should form the basis for GATT agreements.

The EEC's proposals would internationally freeze or "bind" internal measures of agricultural policy. As this would establish a link between national measures and world trade, it has momentous implications. The Americans, on the other hand, place disproportionate emphasis on access rights to importing countries' markets, particularly the EEC's.

Naturally, the EEC has to recognize that access to the markets of importing countries, though not an absolute right, is a real concern of the exporting countries, and they must be able to safeguard their interests in the framework of GATT.

But this right of access directly impinges on the agricultural policy of the importing countries. So it is not surprising that a major importing area such as the EEC would like to regulate internationally those elements of exporters' agricultural policy bearing on ability to export.

EEC Is Not Unique in Its Policy

The keystone of the EEC's agricultural policy is a system of levies on imports from non-member countries set to maintain a desired internal price level. Exporting countries have raised strong objections to this system and urge a reduction of levies. If the EEC did make such a concession, it would be unique. Before the Community came into existence, countries such as the Netherlands and Germany had variable-levy systems for farm products to which neither the U.S. nor any other GATT exporters ever took serious exception. Countries such as Denmark and the United Kingdom have adopted similar systems in recent years with-

out arousing any opposition. Why so much protest now that the EEC has adopted it?

It is understandable that the exporting countries should feel their interests threatened by the EEC's agricultural policy in view of the Community's importance as a market. The EEC, recognizing their cause for concern, has offered to negotiate not only on customs duties but also on agricultural policy in general.

EEC Demands Reciprocity

The EEC stresses that, until now, farm products have never formed part of GATT agreements. For several important farm products, the United States has always enjoyed the advantages of a "waiver", i.e. it was exempt from GATT rules for those products. Furthermore, GATT rules and GATT negotiations have always focused chiefly on import duties and quotas. They have never embraced the various and often complicated systems of market organization which are part of the industrialized countries' national agricultural policies. These domestic systems, with their milling and mixing rules, import time-tables, levy systems, production bonuses, plant protection measures, food inspection legislation, etc. really influence foreign agricultural trade far more than simple customs duties or quotas, the chief instruments for controlling industrial trade.

This means the participants should be prepared to accept the principle of binding the support they give to agriculture (which is a technical way of expressing national agricultural policy), and they must be prepared to negotiate on its level.

This support amounts to the difference between the price level on the world market and the final price the farmers in a particular country receive. The margin of support is the measure of national agricultural policy. The Community proposes to bind the results of this agricultural policy and

tion of agriculture would therefore have to go hand in hand with reduced protection of trade in farm products. For this, industrialization and integration of towns and the countryside are necessary, leading to a community of interests between agriculture and industry. It seems far-fetched; but, all the same, this could be one of the positive results of the Kennedy Round.

It is essential for the EEC and the USA to reach agreement in the agricultural sector. If they do not, they risk a relapse into agricultural isolationism, with countries trying to wrest concessions from each other by threats in the field of commercial policy. Something of the sort can already be seen in the attitude to the Kennedy Round

adopted by COPA, the Committee of Agricultural Organizations in the Community. Pressure groups on both sides of the Atlantic would nullify the political concept which inspired President Kennedy when he made his offer of an Atlantic partnership between the USA and the countries of Western Europe working in co-operation.

Let us hope that the partnership concept wins out over the short-sightedness of the pressure groups.

If the Western world is more than just the sum of the "free" interests of a number of groupings with great economic and political power, it must be shown in the Kennedy Round negotiations and in the following UNCTAD negotiations.

EEC RAISES EXPECTED IMPORT NEEDS FOR 1970

The European Economic Community's Commission has revised an initial 1963 forecast of the Community's self-sufficiency in dairy products, meats and cereals in 1970, now seen as overstated.

The recent study, Comparaison entre les "trends" actuels de production et de consommation et ceux prévus dans l'étude des perspectives "1970", was published June 1966 and indicated that in the time since the initial projections EEC consumption has grown much faster than expected. The original projections were based on the averaged yields of the three crop years 1957-58, 1958-59, and 1959-60. The new study updates the base of comparison by using the average for the crop years 1961-62, 1962-63 and 1963-64.

Two factors helped to alter the projections: a higher population growth and more rapid economic expansion, permitting higher per capita consumption than predicted. Also, since the first study, balances of self-sufficiency in dairy and meat products have been made, supplying more exact data than was available in 1963.

The new projection assumes an annual combined growth rate of about 4.7 per cent in income and a Community population of near 190 million in 1970.

Exports of Dairy Products To Be Smaller

The revised 1970 figure for dairy cows in the EEC is set at 22,180,000. Combining this figure with new calculations of yield per cow, set at 3370 kg. annually (the present U.S. figure being about 3360 kg), the Commission study forecasts a 1970 production of cow's milk of 74,793,000 metric tons; with all types of milk included the figure reaches 76,135,000.

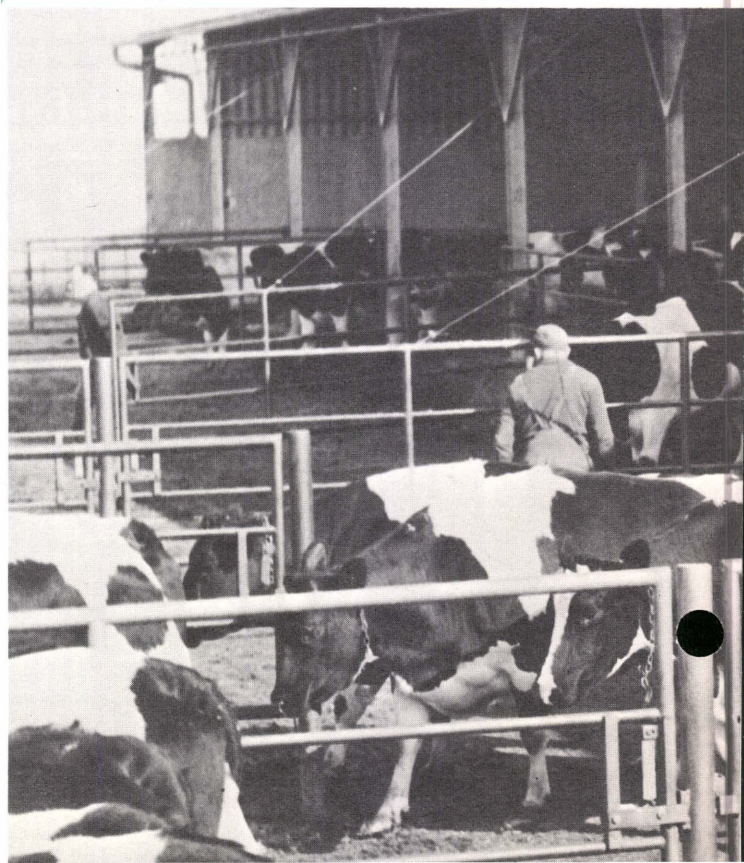
On the other side the new study looks for EEC consumers to use 21,800,000 tons of milk, 13,046,000 tons of milk equivalent of cheese, and 29,296,000 tons of milk equivalent of butter in 1970. Combined per capita consumption of dairy goods should attain nearly 115 kg annually, compared to a present U.S. level of about 180 kg. Thus the total human and animal consumption of dairy products will reach 74,548,000 tons in the Community.

This will mean the EEC will have about 1.6 million tons of dairy produce available for export, giving a self-sufficiency ratio of 102.1 per cent, meaning the Community will be able to produce just more than 2 per cent above its own needs. This is considerably less than had been expected in 1963, and means in effect the Community will export 1.9 million tons of dairy produce less than originally thought.

Meat Production Will Not Keep Up with Demand

Meat production is expected to rise slightly above the original forecasts, though not so much as consumption. Production of beef in 1970 is now expected to reach 4,730,000 tons. On the consumption side per capita intake of beef should rise rapidly with increasing wealth to 27.2 kg a year, compared to the present U.S. level of

The EEC expects to have over 22 million dairy cows by 1970, making the Community a net exporter of dairy products.



nearly 100 kg. This will give a total beef consumption figure of 5,161,000 tons for the Community in 1970. The conclusion is that self-sufficiency will be less in beef than originally expected, and 431,000 tons will have to be imported, giving a 91.6 per cent degree of self-provision in beef. This will mean an import requirement 112,000 tons higher than foreseen in 1963.

Feed Grain Imports to Grow

For cereals four projections appear, based on assumptions of fairly constant yields and area and of higher yields and larger area than originally forecast. Assuming higher yields but holding area constant the study forecast wheat production of 29,540,000 tons in 1970 and other grain production of 35,020,000 tons (which does not include rice).

With a growth of acreage but normal yields the figures would become 29,740,000 tons of wheat and 35,230,000 tons of coarse grains. If both assumptions of increase were realized total grain production would attain 66,070,000 tons.

The wheat consumption figures for the first assumption would be 29,370,000 tons and for the second 29,420,000 tons, the higher figure partially due to the price-lowering effect of greater supply. Thus the degree of self-sufficiency would still surpass the equilibrium point, though it was originally in 1963 set at 30,170,000 tons for both production and consumption. Both estimates have been revised downwards, consumption by the greater amount as it shifts to more expensive foods. Thus the study expects the Community to have from 310,000 to 460,000 tons available for export in 1970 despite lower production. None was originally looked for.

They will produce enough milk to make

In coarse grains the story is quite different. There consumption is to be a great deal higher than originally expected, and production will be increased toward meeting it. This rise in consumption is largely due to the fact that coarse grains are important for animal feeds, which are tied, in turn, to the rising meat intake of the Community's citizens. Originally 33,250,000 tons of secondary grains were to be produced and 9,950,000 tons imported to help meet a demand for 43,200,000 tons. The new outlook is based on four assumptions of future production. With higher yields than in 1961-63 and constant acreage production should reach 35,020,000 tons and consumption 45,720,000. If acreage is increased with only normal yields, production would be 35,230,000 tons and consumption 45,850,000 in 1970. On these two assumptions import requirements could be increased some one million tons up to 10,790,000 tons. This would give about 77 per cent self-sufficiency in coarse grains and 86 per cent for all grains. With both yields and acreage stepped up, however, the degree of overall grain self-provision could reach 88 per cent, leaving a combined wheat and coarse grain import requirement of 9,150,000 tons.

Hallstein Speaks on Agriculture in Berlin

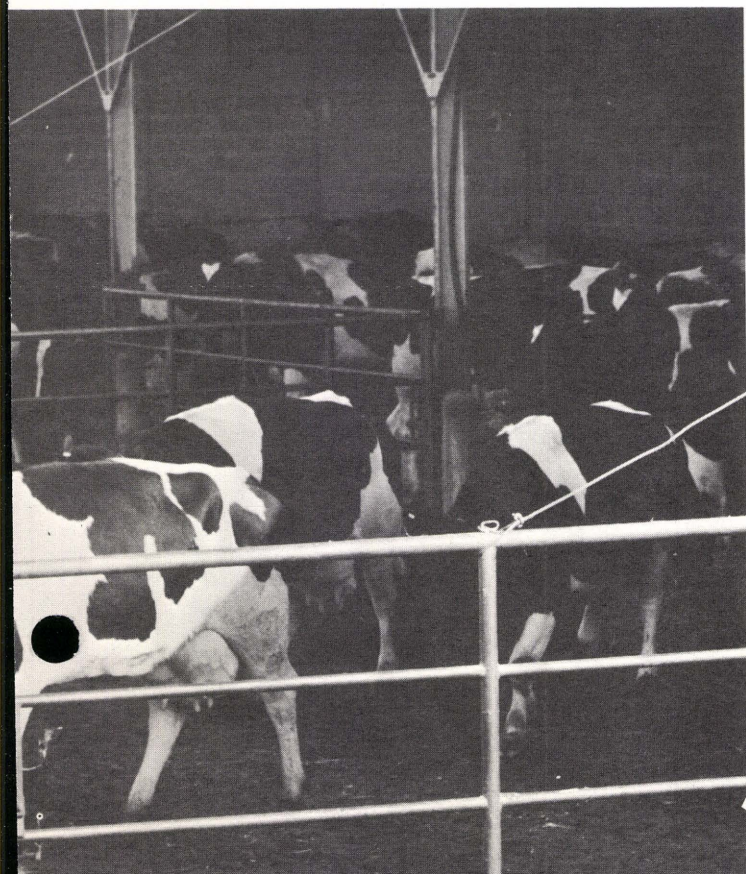
At the opening of the international Grüne Woche (Agricultural Week) in Berlin on January 27, EEC Commission President Walter Hallstein warned against subjecting European agriculture completely to laissez-faire conditions.

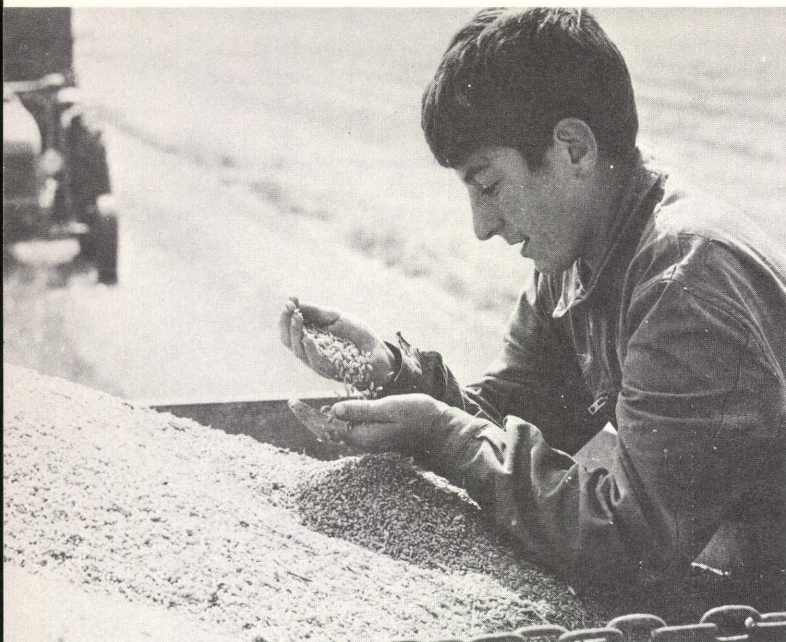
He spoke of the importance of maintaining a policy for agriculture due to its special economic situation. Agriculture is subject to uncontrollable natural forces and based on more or less rigid production conditions; at the same time it is a sector basic to the common welfare and important as a source of employment for a large part [16 per cent] of the Community's labor force.

It would, Hallstein said, "be an injustice, in a situation like today's, when the six national economies in the Community are increasingly merging to form one economy, to insert European agriculture into the worldwide division of labor purely in terms of market forces, i.e. to leave everything to the free play of supply and demand."

He cautioned that within the Community, however, a further rationalization of agriculture was in order; an agrarian reform based on a European division of labor should be the norm for the Community's agriculture.

While noting the importance of having a large-scale farm sector certain of remaining the most important supplier of European needs, Hallstein added, "But not the sole supplier. We have always expressly and unmistakably rejected autarky for Europe... More than one agricultural commodity of which we need large quantities is produced wholly or partly in America or Africa and nothing is likely to change this situation."





As Community institutions operate more and more of the common agricultural policy, they will need adequate information on the management of wheat farms and other agricultural enterprises.

Common Grain Organization Proposed

In preparation for the common grain market to come into effect on July 1, the EEC Commission proposed a regulation covering grain pricing to the Council of Ministers in late December which would further systematize the present import levy export subsidy system.

The regulation would cover hard and soft wheat, rye, barley, oats, corn and other grains, as well as flours made from these grains. The proposal provides for setting prices each year before the August 1 opening of the grain season. The Community would fix a basic price and an intervention price for each product and a guaranteed minimum price for hard wheat only. The prices would correspond to a standard quality level and would be based on the wholesale price level at Duisburg, Germany - a major grain deficit area. The guaranteed minimum price for hard wheat would be based on that at Palermo, Italy.

The proposal also includes arrangements for grain trade with third countries. A threshold price for soft and hard wheat, barley, corn and rye would be established so that imported grain would correspond to the Duisburg price before it could enter the Community. Monthly adjustments would be possible in all these prices during the August 1 to July 31 grain season.

A levy system would be used to bring external prices up to the Community threshold price when it is higher. Subsidies could cover Community grain sales on the world market when world prices lie below those of the EEC. Italy would be allowed special provisions to apply lower levies on her imports of barley and corn. The proposal, which is still under discussion, is made in pursuance of the 1962 regulation outlining common grain organization.

Farm Accounts Information Service To Be Created

Within the next few months the EEC will establish a farm accounts information service, which will illuminate agricultural management and income.

As Community institutions manage more and more of the common agricultural policy, it will become increasingly necessary for the competent authorities to have adequate information on hand. Annual setting of prices and levies and opening of tariff quotas will all require data on the economic situation in agricultural holdings and revenues received in different types of operations. The information service will supply the Community with the annual income of such holdings and an analysis of their operations.

On the basis of this information an annual "Report on the Situation in Agriculture and the Agricultural Markets in the Community" will be drawn up.

Commission Suggests Increased Beef Prices

The EEC Commission has proposed to increase present price levels for beef and veal in its market guidance prices for Council approval for the 1967/68 marketing year.

<u>\$/100 kg live weight</u>			
Beef Cattle		(1966/67 prices)	
Upper limit	66.25		64.25
Lower limit	62.50		60.50
Calves			
Upper limit	89.50		86.75
Lower limit	82.75		80.00

Though France and Germany had to take price support measures during 1966, and the 1967 beef and veal output is to reach unprecedented levels, the Commission feels that further stimulation is still in order, as the number of young animals has leveled out or even decreased and population and per capita demand are both rising. The Commission estimates the Community's beef and veal deficit between 430,000 and 600,000 metric tons this year.

Common prices for beef and veal will be effected by April 1968.

Proposed Market Organization for Pigmeat

Along with the cereals proposals the Commission submitted a proposal to establish common prices for pigmeat and to use indirect measures to stabilize the market.

Their simultaneous enactment on July 1 will be necessary as pigmeat prices are closely bound up with the prices of feed grains. The pigmeat proposal foresees common market support through pur-

chases by intervention agencies and aids for private storage; measures to stabilize production are also envisioned which could make direct intervention largely unnecessary. These measures would include disseminating wider information on market conditions, for example.

A basic price and a support price will be set to determine the level of prices at which market intervention can take place. These prices must not be so high as to result in overproduction. The support price will be set using the basic price, and it must be at least 90 per cent of the latter. For foreign trade there will be a levy with a component to offset differences in foreign feed grain prices and a protective component to ensure some preference to EEC pig farmers. Common "sluice-gate prices" will be created as well, below which imported pigmeat will bear an increased levy.

Proposed Market Organization for Eggs and Poultry

The EEC Commission recently submitted to the Council two draft regulations for common organization of the egg and poultry markets to come into effect July 1, when the single grain prices are enacted.

The proposals are roughly similar to those for pig meat, though no arrangements are made for market intervention but only for "regularization." The aim of such regularization is to adjust the volume of supply to the requirements of the market and to fix the price at a level that will assure producers of a fair return. These correspond to the measures for stabilizing the pig market.

The following Community measures are suggested:

- a) measures encouraging professional initiatives to improve the organization of production, processing and marketing;
- b) measures to improve quality;
- c) measures to permit short- and long-term forecasts by providing information on methods of production;
- d) measures to assist in observing price trends on the market.

The poultry and egg proposal also provides that standards of quality, size and packing may be established. These standards may cover classification by grade, weight, quality and packing as well as presentation and stamping, much as has already been done for fruits and vegetables (see Farm Report number 29). When the standards have been put into force all products marketed will have to conform to them.

France Authorized to Finance Private Stocks of Poultry

Indicating cyclical difficulties, the Commission has authorized France to use the general safeguard clause 226 to grant loans for storing 5,000 metric tons of slaughtered chickens.

The safeguard clause permits any member state to have the Council institute temporary safeguard measures to protect a sector threatening serious regional disruption.

The loans will be granted for periods of five to twenty weeks and will only cover costs incurred in keeping the stocks. These costs must not exceed about \$4 per ton weekly for storage and \$30 for freezing. The loans can only be granted to establishments which undertake to market the stocks gradually and to liquidate them by June 30 at the latest.

The Community has been subject to a general surplus of broiler chickens in recent months. This marks the first application of the safeguard clause for a product under common organization.

Council in Agreement on Sugar Production

On February 9, the Council of Ministers was in basic agreement on outlined measures for limiting sugar production during the 1967/68 marketing year. An early agreement on the matter is essential, as planting has already begun in some areas of Italy.

The new production quotas were set somewhat higher in total than last year's production. Operations would be commonly covered up to the following tonnages: Germany 1,700,000, France 2,300,000, Italy 1,230,000, the Netherlands 575,000, and Belgium-Luxembourg 530,000.

The Council instructed the Special Committee on Agriculture to solve the various problems relating to the common organization of the sugar market for 1967/68 in order that the regulation may be adopted definitively at one of the Council's upcoming meetings.

The Council also noted its agreement that the Community would take upon itself the financial consequences of this arrangement.

Study Made on Farm Productivity Shows Low Countries Efficient

An August 1966 Commission study examined the productivity of various agricultural areas in the Community and found it to be inversely related to labor density. The study, Les conditions de productivité et la situation des revenus d'exploitations agricoles familiales dans les Etats membres de la CEE, analyzed 2,587 undertakings in various Community countries.

According to the study's findings the highest returns to labor and capital were yielded by the intensively-cultivated clay soils of the Dutch and Belgian North Sea Coast and the loess belt of northern France. In the farms examined in Germany returns were lower despite more intensive usage and only attained levels of return 70 to 80 per cent those in the low countries. The study explained the relatively favorable results obtained in France by the extensive use of large farms and those in the Low Countries by relatively higher yields there.

In Italy a certain number of northern areas did relatively well but still yielded returns to applied capital and labor less than half those obtained along the North Sea Coast. Central Italian agriculture was only represented in the study by two groups for whom operations were only half as profitable as in northern Italy.

The study analyzed the revealed differences from several viewpoints and found that grouping the results according to relative density of utilized labor yielded more or less homogeneous sub-groups according to returns to labor and capital. These densities, taken largely, varied from country to country; most of the land considered in Italy had twice as much labor per unit of land as in France.

Altitude played a relatively slight role in determining the profitability of an operation, it was found.

The 200-page report is the 13th in the Informations internes sur l'agriculture series.

Community Parcels Out Tariff-Free Frozen Beef and Veal

The Council noted its agreement on measures permitting duty-free frozen beef and veal imports from third countries.

The regulation specifies the distribution among the member states in 1967 of the Community's GATT-bound tariff quota of 22,000 tons of frozen beef and veal. It also makes provisions to allow the members to suspend until June 30 all levies on certain types of frozen beef and veal and to suspend half the levies on live cows for processing.

The 20 per cent duty will remain. Italy is authorized to make special reductions of the common customs tariff duty to 15 per cent until the same date on frozen beef.

Further Reduction on Internal Duties on Farm Goods

The EEC Commission has laid a proposal before the Council aimed at a further lowering of internal duties on agricultural goods.

The directive, if adopted, would go into effect on July 1 and cut duties by 10 and 15 per cent. Basic duties on each product traded between Community countries could thus be reduced to 25 per cent of their initial 1958 levels.

A second proposal is to be made before July 1 for the complete elimination of internal agricultural duties in view of the end of the transition period on July 1, 1968.

Corrections

The Statistical Office of the European Community in Brussels has notified us of an overstatement in their Italian egg import figures. This will necessitate some adjustments in several tables of Farm Report number 28. Italian egg imports grew rather less dramatically by \$18.5 million to give a total of \$42.9 million in 1965 instead of the \$157.6 million figure reported in the table at the bottom of page 3. This requires the following changes in the table on page 1: Imports of commonly-regulated agricultural products from Community countries in 1965 should become \$1820.9 million instead of \$1819.3 million, and imports of these products from non-member countries should become \$3028.3 million instead of the \$3143.0 reported. The corresponding changes should be made in the text. Italy's egg imports thus increased by about 75 per cent to account for about 40 per cent of EEC egg imports, a lower share than Germany's 53 per cent.

In Farm Report number 29 on page 2 the heads "Guidance" and "Guarantee" are reversed in table 3. No changes are required in the text.

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